

**PROCEEDINGS BEFORE MICHAEL D. RILEY
INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA**

**IN RE: PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY
OF WEST VIRGINIA**

Administrative Proceeding No.: 13-AP-FINCON-02001

**AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND
DIRECTING ACTION**

COMES NOW Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2011, of PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA (hereinafter referred to as "Company") based upon the following findings, to wit:

JURISDICTION

1. Michael D. Riley is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. The Company was incorporated on February 10, 1898 and authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Chapter 33, Article 22 of the West Virginia Code.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2007 and ending December 31, 2011, was conducted in accordance

with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On December 4, 2012, the examiner filed a REPORT OF FINANCIAL EXAMINATION with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the REPORT OF FINANCIAL EXAMINATION is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about December 6, 2012, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On December 11, 2012, the Company received a copy of the REPORT OF FINANCIAL EXAMINATION.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the REPORT OF FINANCIAL EXAMINATION within which to make a submission, rebuttal, or objection concerning any matter contained in the REPORT OF FINANCIAL EXAMINATION.

5. By email dated January 4, 2013, management of the Company indicated that they had reviewed the REPORT OF FINANCIAL EXAMINATION and concurred with the findings of the examination. A copy of the Company's email of January 4, 2013, is attached hereto as Exhibit B. By the email dated January 4, 2013, the Company concurs with the findings.

CONCLUSIONS OF LAW

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

ORDER

It is therefore AGREED by the Parties and ORDERED the following:

1. It is **ORDERED** that the Report of Financial Examination of PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.

2. It is further **ORDERED** that a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL EXAMINATION and a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and DIRECTING ACTION, in accordance with W.Va. Code § 33-2-9(j)(4).

4. It is **ORDERED** that PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.

5. That PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA waives any right to any notice, administrative hearing or appeal therefrom for the

actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA reserves herein its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

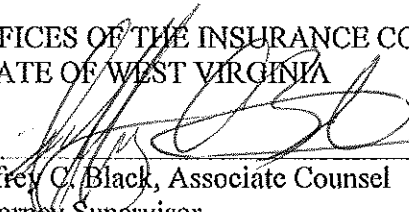
6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

Entered this 11th day of January, 2013.


Michael D Riley
Insurance Commissioner

THE PARTIES DO SO AGREE:


OFFICES OF THE INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA

By: 
Jeffrey C. Black, Associate Counsel
Attorney Supervisor

1/11/13
Date

PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA

BY: ART MEADOWS
[Print Name]

Signed: 

Its: PRES / CEO

Dated: 1-9-2013

STATE OF WEST VIRGINIA
Offices of the Insurance Commissioner
REPORT OF EXAMINATION
OF
PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY
OF WEST VIRGINIA

As of

December 31, 2011

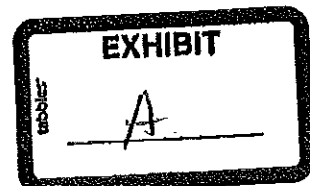


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October 23, 2012

Honorable Mike Riley
West Virginia Insurance Commissioner
1124 Smith Street
Charleston, West Virginia 25301

Dear Commissioner Riley:

Pursuant to your instructions, an examination has been made as of December 31, 2011 of the financial condition and operational affairs of:

PAN HANDLE FARMERS MUTUAL INSURANCE COMPANY
OF WEST VIRGINIA
3727 Waynesburg Pike Road
Moundsville, WV 26041

hereinafter referred to as the "Company." The following report of the findings of this examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

We have performed our single-state examination of Pan Handle Farmers Mutual Insurance Company of West Virginia. The last exam was completed as December 31, 2006. This examination covers the period of January 1, 2007 through December 31, 2011.

We conducted our examination in accordance with procedures, rules and regulations established by the state of West Virginia as well as guidelines and procedures set forth in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, we obtained information regarding the Company's corporate governance, identified and assessed inherent risks within the Company, and evaluated its system of internal controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to the regulations of West Virginia.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. If necessary, comments and recommendations were made in those areas in need of correction or improvement. In such cases, these matters were discussed with responsible Company officials during the course of the examination.

In addition, the work papers and reports of the Company's independent public accounting firm were reviewed and utilized where appropriate.

HISTORY

General

The Company was incorporated in West Virginia on February 28, 1898 and began business as an assessable mutual company on February 10, 1898. The Company operates under the provisions of Chapter 33, Article 22 of the West Virginia Insurance Laws. Section 17 of Article 22 provides that, upon liquidation, surplus funds remaining belong to the policyholders.

The Company is licensed and authorized to issue policies of insurance as described in Chapter 33, Article 22 of the West Virginia Insurance Laws. The Company writes non-assessable homeowners, mobile homeowners, standard fire, commercial fire, and business owners.

CORPORATE RECORDS

Constitution & By-Laws

The prior examination had noted inconsistencies between requirements of the Company's Constitution & By-Laws and actual practices. The proposed amended Constitution & By-Laws of the Company were submitted to and reviewed by the Department. The revised changes were found to be in accordance with the relevant insurance laws of the state, and approved as of May 4, 2007.

Minutes

The Board of Directors and Policyholder meeting minutes were reviewed for the period under examination, and significant actions taken during each meeting were noted. Except for the January 17, 2007 meeting, according to the Company's minutes, all the monthly meetings and the annual meetings for the period under examination constitute a quorum to do business.

MANAGEMENT

Board of Directors

At December 31, 2011, the Company had seven individuals serving on the Board of Directors. Three of the Directors are also officers of the Company. All directors are elected for three-year terms or until their successor can be duly elected and qualified. The policyholders' annual meeting for the election of directors and other business is held on the first Saturday of October of each year. Directors serving at December 31, 2011 were as follows:

Name and Address

Principal Occupation

Art Meadows
Rt. 7, Box 113B
Fairmont, WV 26554

President/CEO
Pan Handle Farmers Mutual

K. Wayne Simmons
171 State Street
Cameron, WV 26033

Vice President
Panhandle Farmers Mutual

Charles B. Davis
RD 1, Box 201
Wheeling, WV 26003

Secretary/Treasurer
Not Employed with Company
Retired College Professor

James L. Reid
RD 5, Box 66
Cameron, WV 26033

Columbia Gas Transmission

Donald K. Mason
1119 Sixth Street
Moundsville, WV 26041

Retired from banking,
holds position as a
County Commissioner

Jill Bentz Rice
215 Don Knotts Blvd.
Morgantown, WV 26501

Dinsmore & Shoal, Partner
Executive Director WV Ins. Federation
Board Member as of 07/09/2007

David M. Gantzer, CPA
256 Glenwood Road
Wheeling, WV 26003

Gantzer Accounting Service
provides accounting services for Co.
Board Member as of 06/09/2011

Officers

The Company's Constitution & By-Laws provide that the officers of the Company shall be a President, Vice-President, Secretary and Treasurer, all of whom shall hold their office for one year and until their successors are elected and qualify. The President and Treasurer shall be elected from the Board of Directors. Officers elected and serving at December 31, 2011 were as follows:

<u>Name</u>	<u>Title</u>
Arthur Lee Meadows	President and CEO
Kelsey Wayne Simmons	Vice President
Charles Burley Davis	Secretary/Treasurer

On April 16, 2009, the Board of Directors elected board members to serve on the following committees:

Executive Committee

<u>Name</u>	<u>Title</u>
Arthur Lee Meadows	President and CEO
Kelsey Wayne Simmons	Vice President
Charles Burley Davis	Secretary/Treasurer
James L. Reid	Director

Audit and Investment Committee

<u>Name</u>	<u>Title</u>
Arthur Lee Meadows	President and CEO/Director
Kelsey Wayne Simmons	Vice President/Director
Charles Burley Davis	Secretary/Treasurer/Director
Don Mason	Director

During the board meeting of January 12, 2006, the Board of Directors unanimously passed to combine the Investment Committee and Audit Committee.

Conflict of Interest Procedure

A conflict of interest statement is completed by each Board member annually.

TERRITORY AND PLAN OPERATION

The Company is only licensed to write business in West Virginia and operates in all of the counties in the state. The Company markets all of its business through independent agents.

Advertising and Sales Material

The advertising program consists of free distribution of pens and calendars. These items are distributed at the home office and through the agency system. The Company also has a web-site at <http://www.panhandleins.com/>.

REINSURANCE

The Company has entered into reinsurance arrangements whereupon certain risks are transferred to other insurance companies. The arrangements include facultative reinsurance, excess-of-loss reinsurance and aggregate excess of loss (for losses in excess of stipulated minimums retained by the Company.) Premiums earned were reduced by reinsurance premiums ceded of \$363,961 in 2011 and \$313,782 in 2010. Losses incurred were reduced by amounts recoverable from reinsurers of \$53,331 in 2011 and \$7,947 in 2010.

ACCOUNTS AND RECORDS

The Company's trial balance and other accounting records utilized to prepare the Annual Statement as of December 31, 2011, were obtained from management and reviewed and tested to the extent deemed necessary.

The Company's utilizes QuickBooks accounting software for its general ledger. The general ledger is supported by a cash receipts and cash disbursements journal and other supplemental records which provide support for the journal entries. Other records supporting general ledger accounts are maintained by a local accountant on manual and computer work sheets. The Company integrated its accounting software with its new operating system developed by Intuitive Web Solutions LLC (IWS). The operating system is used for the processing of policies, claims, and reports. Backups are removed every day from site by an employee and data is also backed up and maintained to IWS's servers.

FINANCIAL STATEMENTS

The statements on the following pages present the financial condition and operations of the Company for the period under examination. The amounts shown on the balance sheet are those determined by this examination.

ASSETS			
As of DECEMBER 31, 2011			
Assets	Per Company	Adjustments	Per Examination
Bonds (Note 1)	\$2,160,544		\$2,160,544
Common stocks	528,885		528,885
Real estate			
Properties occupied by the company	107,760		107,760
Properties held for sale	10,000		10,000
Cash (\$313,081), cash equivalents (\$0) and Short-term Investments (\$216,175)	574,256		574,256
Other invested assets	100,000		100,000
Investment income due and accrued	13,931		13,931
Deferred premiums, agents balances and installments booked but deferred not due	431,857		431,857
Net deferred tax asset	85,307		85,307
EDP equipment and software	57,307		57,370
Total Assets	\$4,069,910		\$4,069,910

**LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2011**

Liabilities	Per Company	Adjustments	Per Examination
Losses	\$145,078		\$145,078
Loss adjustment expenses	31,600		31,600
Commissions payable, contingent commissions and other similar charges	133,662		133,662
Other expenses (excluding taxes, licenses and fees)	50,867		50,867
Taxes, licenses and fees (excluding federal and foreign income taxes)	8,777		8,777
Current federal and foreign income taxes (including \$....0 on realized capital gains (losses))	52,000		52,000
Unearned premiums	1,300,170		1,300,170
Advance premium	36,963		36,963
Ceded reinsurance premiums payable (net of ceding commissions)	23,294		23,294
Total Liabilities	\$1,782,411		\$1,782,411
Aggregate write-ins for special surplus funds	500,000		500,000
Unassigned funds (surplus)	1,787,499		1,787,499
Surplus as regards policyholders	2,287,499		2,287,499
Total Liabilities, Surplus and Other Funds	\$4,069,910		\$4,069,910

STATEMENT OF INCOME
DECEMBER 31, 2011

UNDERWRITING INCOME	Current Year	Prior Year
Premiums earned	\$2,109,861	\$2,061,931
DEDUCTIONS		
Losses incurred	632,981	1,181,101
Loss adjustment expenses incurred	306,855	314,721
Other underwriting expenses incurred	908,636	823,343
Total underwriting deductions	\$1,848,472	\$2,319,165
Net underwriting gain (loss)	\$261,389	(\$257,234)
INVESTMENT INCOME		
Net investment income earned	\$28,222	\$38,143
Net realized capital gains (losses) less capital gain tax	4,155	0
Net investment gain (loss)	\$32,377	\$38,143
OTHER INCOME		
Aggregate write-ins for miscellaneous income	\$41,968	\$908
Total other income	\$41,968	\$908
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	335,734	(218,183)
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	335,734	(218,183)
Federal and foreign income taxes incurred	56,000	(68,345)
Net income	279,734	(\$151,838)
CAPITAL AND SURPLUS ACCOUNT		
Surplus as regards policyholders, December 31 prior year	1,939,346	2,060,009
Net income	279,734	(151,838)
Change in net unrealized capital gains or (losses) less capital gains tax of \$	(27,828)	57,930
Change in nonadmitted assets	72,414	(27,061)
Change in surplus as regards policyholders for the year	348,153	(120,663)
Surplus as regards policyholders, December 31, current year	2,287,499	1,939,346

NOTES, COMMENTS AND RECOMMENDATIONS

NOTES

Note 1-Bonds

The Company utilized the straight line method for calculating bond amortization.

SURPLUS

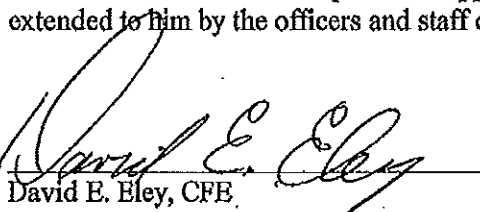
The surplus as regards policyholders at December 31, 2011 as reported by the Company on the annual statement is \$2,287,499. No adjustments to surplus were made for the period under examination, and the Company meets the minimum surplus requirements of \$100,000 as in accordance with W. Va. Code § 33-22-4.

RECOMMENDATIONS

There are no recommendations made in this report of examination.

ACKNOWLEDGEMENT

The Examiner wishes to express his appreciation for the courteous cooperation and assistance extended to him by the officers and staff of the Company during the course of this examination.


David E. Eley, CFE
Insurance Company Examiner, Senior
WV Offices of the Insurance Commissioner

matters contained in the Report of Examination? If so, please submit a response letter as soon as possible to ensure the letter is received by the Department within the statutory timeframes established in the above code section.

If it is Panhandle's Intent to not make a submission or rebuttal, can you please confirm (via email or letter to the department) that the company and/or board accepts the report as written. This will allow the Department to move into the next phase of adopting the examination report.

Thanks in advance for your prompt attention to this matter.

Very Respectfully,

Justin Parr
Insurance Financial Specialist
WV Offices of the Insurance Commissioner
1124 Smith Street
P.O. Box 50540
Charleston, WV 25305-0540

Phone: (304) 558-6279 Ext. 1173
Fax: (304) 558-1365
Email: justin.parr@wvinsurance.gov

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION

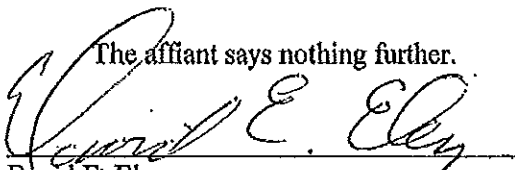
State of West Virginia,

County of Kanawha,

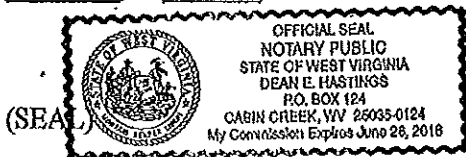
David E. Eley, being duly sworn, states as follows:

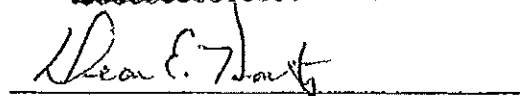
1. I have authority to represent West Virginia in the examination of Panhandle Farmers Mutual Insurance Company of West Virginia.
2. West Virginia is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Panhandle Farmers Mutual Insurance Company of West Virginia was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.


David E. Eley

Subscribed and sworn before me by David E. Eley on this 4th day of
December, 2012.




Notary Public

My commission expires June 26, 2016 [date].

Georgia Cisco

From: Art Meadows <art@phfm1898.com>
Sent: Friday, January 04, 2013 10:56 AM
To: Justin Parr
Subject: RE: 30-day response to the Report of Examination

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Justin,

The Board at its December meeting accepted the report as written and has no intent of making any submissions or rebuttals to the report. Thanks so much,

Happy New Year!

Art Meadows, President/CEO
Panhandle Farmers Mutual Ins
3727 Waynesburg Pike Road
Moundsville, WV 26041
304.845.2649
304.845.2967 Fax
www.panhandleins.com



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From: Justin Parr [mailto:Justin.Parr@wvinsurance.gov]
Sent: Friday, January 04, 2013 10:50 AM
To: Art Meadows
Cc: David Eley; Jamie Taylor; Leah.Cooper@wvinsurance.gov
Subject: 30-day response to the Report of Examination

Art,

The DRAFT version of the Report of Examination was mailed on December 7th and received by Panhandle on December 11th.

The statutory response period of 30 days from receipt, per W. Va. Code §33-2-9 (j)(2), is nearing and the Department has yet to receive a response letter from Panhandle. Is it your intent to make any submission or not to any

